CANADIAN CAPITAL REQUIREMENTS

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With half a continent held in trust, its resources little known and less developed, Canada must for many a year be a seeker of capital. In the past fifteen years it has absorbed four or five billions in railroad construction, in developing mine, forest and farm, in securing adequate manufacturing equipment, and in the municipal expansion required to serve the needs of the rapidly growing cities. Today, in addition to a more moderate rate of expenditure upon these objects, the Dominion has to meet its heavy share of the cost of a great war, and to finance the munitions manufacturing which has taken first place among its industries. Tomorrow, the need will continue for capital, to fund the short-term borrowings of the war period, to finance the railway reorganization which is inevitable, and to continue the normal industrial development.

In the past, Canada sought the capital required from three sources—the United Kingdom, the United States and in the Dominion itself. French, Dutch and German investors supplied a steadily increasing amount of capital before the war, but it made up a very small fraction of the whole. It is in the English-speaking world that Canada has found her capital in the past and must for the most part find it in the future.

Growth of Canadian Borrowing

Until the war, the United Kingdom was Canada's chief banker. The interest of British investors in Canada had been a comparatively recent development. It is true that it was largely British capital which built the Grand Trunk and to a less extent the Canadian Pacific, that many an early Canadian mining venture found trusting investors in London, and that the federal and the provincial governments went to the same market for their borrowings. Yet until 1900 the total thus borrowed was not great. The United States Australia and the Argentine far outranked Canada in British favor.

Then came the opening of the West, the newly quickened confidence of Canadians themselves in their own country, and the immigration of hundreds of thousands of United States farmers. The enthusiasm proved contagious, and British purse strings were loosened, until Canada took first place among Britain's outside fields of investment. At the end of 1910, according to the London stock exchange totals, compiled by the *Economist*, Canada had outranked all other parts of the Empire, attaining a total of £365,000,000;[1] the three and a half years which followed, to the outbreak of the war, added £190,000,000 to this amount. In 1913 these borrowings reached their maximum. In that year, according to *The Statist's* compilation, Canadian flotations in London amounted to £47,000,000 out of a total of £245,000,000 capital subscriptions made in the United Kingdom, or nearly one-fifth of the whole. This movement continued to the very eve of the war: in the first six months of 1914 over £37,000,000 British capital found the same outlet. Including capital not listed on the London exchange, the total amount of Canadian borrowings from Britain was estimated at this time, by Sir Frederick Williams-Taylor of the Bank of Montreal, to be approximately $2,500,000,000.

The chief rôle of the British investor has been to finance the constructions of the two new transcontinental railways, either by direct loan, or by loan to the governments which built or subsidized them or guaranteed their bonds. A surprisingly small, if latterly increasing, fraction of the British capital went into industrial development.

UNITED STATES INVESTMENTS IN CANADA

With the United States, the case was quite otherwise. The total amount of American capital invested before the war was only about one-fourth of the British supply. To a still greater extent than in the case of the United Kingdom this investment was a very

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[1] LONDON STOCK EXCHANGE OFFICIAL LIST, DEC. 28, 1910

(Mining and Rubber Flotations as Given in Mathieson's Lists)

Dominion of Canada	£365,368,800
India and Ceylon	350,758,200
Australasia	327,000,600
South Africa	256,603,200
Other parts of the British Empire	102,827,800
	£1,402,558,600

recent development. The distinguishing feature, however, was the preference of American investors for industrial rather than railroad or government issues. In other words, the United States investor was seeking profits, the British investor interest. The United States investor put his money into factories, timber limits, mines, land deals, keeping control, taking the risks and taking the profits or losses. The British investor bought the bonds of the governments or of railways controlled (except, to a lessening extent, the Grand Trunk) in Canada.

Careful, detailed and authoritative summaries of United States investments in Canada have been compiled by Fred W. Field, for the *Monetary Times*. These estimates show how recent and rapid has been the growth of American interest in Canadian opportunities. The latest estimate, given in somewhat greater detail, shows the overwhelming industrial and speculative character of these investments, up to 1914.

ESTIMATE OF UNITED STATES INVESTMENTS IN CANADA
(*Monetary Times Annual, 1914*)

1909	$279,075,000
1911	417,143,221
1913	636,903,952

Following is a summary of United States investments in Canada in 1913:

SUMMARY OF UNITED STATES INVESTMENTS IN CANADA, 1913

450 branch companies, with average investment of $300,000	$135,000,000
Investments in British Columbia mills and timber	70,000,000
Investments in British Columbia mines	62,000,000
Land deals in prairie provinces	40,000,000
Investments in lumber and mines, prairie provinces	10,500,000
Theatrical enterprises	3,000,000
Packing plants	6,750,000
Agricultural implements distributing houses	9,255,000
Land deals, British Columbia	60,000,000
Investments of United States life and fire insurance companies	67,831,497
Miscellaneous industrial investments	12,225,000
Purchase of city and town property	20,725,000
Investments in the Maritime Provinces	13,125,000
Fox farm investments, Prince Edward Island	1,000,000
Purchase of government, municipal and corporation bonds, 1905–1913	123,742,455
Total	$636,903,952

Especially significant is the list of branch manufacturing establishments, covering agricultural implements, motor-cars, typewriters, hardware, scales, cash registers, brass goods, cereals, tobacco and scores of other commodities. Usually these establishments began as distributing or assembling branches, and later expanded into full-fledged factories

FOREIGN TRADE OF CANADA

In connection with the capital investments of the United Kingdom and the United States, in Canada, it is important to recall the Dominion's trade relations with the same countries. In brief, Canada found its chief market in the United Kingdom, and did its buying chiefly in the United States. In the last fiscal year before the war, the year ending March 31, 1914, the United Kingdom took 50 per cent of Canadian exports, the United States 37 per cent and other countries 13 per cent. Of the imports of Canada, on the other hand, the United Kingdom provided only 21 per cent, the United States 64 per cent and other countries 15 per cent. The figures for the preceding decade reveal substantially the same relations.

	IMPORTS OF CANADA FOR HOME CONSUMPTION (*In millions of dollars*)				EXPORTS OF MERCHANDISE, THE PRODUCE OF CANADA (*In millions of dollars*)			
Fiscal Year	From—U.K.	U.S.	Other Countries	Total	To—U.K.	U.S.	Other Countries	Total
1905	60	152	39	251	97	70	23	190
1906	69	169	45	283	127	84	24	235
1907 (9 mos.)	64	148	37	249	99	62	19	180
1908	94	204	53	351	126	91	30	247
1909	71	170	47	288	126	85	31	242
1910	95	217	57	369	139	104	36	279
1911	110	275	67	452	132	104	38	274
1912	117	330	74	521	147	102	41	290
1913	139	436	95	670	170	139	46	355
1914	132	395	91	618	215	163	53	431

In 1913, for example, Canada bought goods from the United Kingdom to only half the amount of the capital she borrowed, while she bought from the United States probably four times as much as she borrowed. In other words, Canada borrowed her capital in the United Kingdom and used it to make her purchases in the United States. In spite of Canada's tariff preference to Great

Britain, of their close political relations, and of the fact of the furnishing of the capital itself, the mother country secured less than a third as much of Canada's trade as did the United States.[2]

The third source of capital before the war was the Dominion itself. In spite of its small population, of the lack of accumulated capital, and of the absence of European habits of thrift, the Dominion was able to provide the bulk of the money needed for the ordinary commercial and industrial undertakings of the country. The discounts of the chartered banks, which obtain their capital almost wholly within the country, rose rapidly from $279,000,000 in 1900 to $1,111,000,000 in 1913. Between the census years of 1901 and 1911 the capital employed in manufacturing grew from $353,000,000 to $1,247,000,000, 90 per cent of it provided in the Dominion itself. The capital required for railway building, however, and for government purposes, came for the greater part from without. Municipal debentures alone found an important share of their takers in Canada.

Increased Borrowing During the War

This was, in brief, the capital situation at the outbreak of the war in August, 1914. At first it was believed that with the war there would come an almost entire cessation of borrowings. The reaction after the boom period of 1900–1912 had already brought a halt in industrial expansion and in the land speculation which accompanied it. London was beginning to tighten its purse strings. The needs of the war, it was felt, would absorb all surplus British capital. Canada would have to cut its coat to suit its smaller cloth.

These expectations, natural as they were, were not borne out by facts. The issue of Canadian bonds never reached as high a total as in 1915, and 1916 bids fair to record a higher level. Railway construction, it is true, fell off with the approaching completion of the great trunk lines, and municipalities slackened in their programmes of road and sewer and power plant construction. Yet a steady flow of municipal securities has been maintained, the provinces have borrowed more extensively than usual, the Dominion

[2] For interesting summaries of the relation between Canada's borrowing and her foreign trade, see the article by Dr. James Bonar on "Canada's Balance of Trade," *Proceedings Canadian Political Science Association, 1913*, and the analysis by R. H. Coats in the *Report of the Cost of Living Commission, 1915*.

has found it necessary and possible to float one large loan after another to meet its internal and its war requirements, and a small amount of railway and industrial issues has been placed.

The United Kingdom, as was expected, found it necessary to confine its capital resources to war purposes. No Canadian issues were made in London in 1914, after the outbreak of the war. In 1915, two railway loans were sanctioned, note issues of the Grand Trunk and Canadian Northern amounting to $16,175,000. In March of the same year the Dominion government made its first and only public sale of bonds in London since the war, $25,000,000 in five- and ten-year bonds at 4½ per cent; the issue was largely oversubscribed. This completes the list of public issues in over two years. No provincial, municipal or industrial bonds have been sold in London in that time.

The United Kingdom, however, did, at first, aid substantially in providing for the war expenditure of the Dominion. From September, 1914, to July, 1915, $10,000,000 a month was advanced by the British to the Canadian government, some $100,000,000 in all. Since that time the Dominion has been able to meet its share of the war expenditure out of its own resources, so far as that greater part of it which takes place in Canada itself, is concerned—including separation and part pay allowances, and amounting to perhaps three-quarters of the million dollars a day that the war is costing Canada. The expenditure on the Canadian forces in Great Britain and at the front is still provided for by borrowings from the British treasury. Arrangements have recently been made for funding these temporary advances. The Canadian government is issuing to the British government dollar bonds bearing the same rate of interest as the British government is required to pay on the loans from which it made the advances. The hundred millions advanced in the first year of the war are met by the issue of dollar bonds maturing in 1928 and 1945, and bearing 3½ and 4½ per cent interest. These bonds are not being sold by the British treasury, but are used as collateral to assist its purchases of munitions and supplies in the United States and Canada. Offsetting these loans by Britain to Canada, there have been heavy loans by Canada to Britain; the Canadian chartered banks have financed the great bulk of the purchases made here by the Imperial Munitions Board.

With the British market thus cut off except for war loans, it

became necessary to find new resources. The striking features of the war period have been, first, the rapid expansion of United States investments in Canada, and second, the discovery by the Canadian people of their own financial resources.

LOANS FLOATED IN THE UNITED STATES

During the first two years of the war, Canada's borrowings in the United States slightly exceeded $300,000,000. The Dominion government has been the largest borrower. In July, 1915, it issued in New York $25,000,000, 5 per cent one-year notes, and $20,000,000 two-year notes, both convertible into 5 per cent twenty-year bonds: the first loan was repaid on maturity in August last. In March, 1916, a loan of $75,000,000 in five-, ten- and fifteen-year bonds was made in the same market, at a price to yield on the average 5.36 per cent to the investor. The reception given this issue was such as to justify the comment of Sir Frederick Williams-Taylor, that, "no other foreign country in the world could borrow on such favourable terms in the United States."

It was not, however, only the Dominion which now for the first time has turned to the United States for capital. In the two years of war the provinces have borrowed $55,000,000 and the municipalities $60,000,000 in the United States. In 1915 every one of the nine provinces except Prince Edward Island floated a New York loan. The municipal debentures were issued in large part through bond houses in Boston, Chicago, Cleveland and other centers. In addition, corporation issues, chiefly railway and public utility bonds and notes, were placed to the amount of $66,000,000.[3]

In this connection, the outstanding facts as to the changes in trade relations may be reviewed. Canadian imports have fallen off slightly since 1913, though this present year bids fair to exceed all previous records. The falling off was chiefly in the imports from

[3] CANADIAN BORROWINGS IN THE UNITED STATES, AUG. 1914–AUG. 1916.

(*Monetary Times Record*)

	1914 (Aug. 4 to Dec. 31)	1915 (Jan.–Dec.)	1916 (Jan. 1–Aug. 1)
Dominion government		$45,000,000	$75,000,000
Provincial governments	$1,000,000	35,877,000	18,450,000
Municipal	6,900,000	32,455,000	20,763,000
Corporations	18,690,000	30,640,000	17,022,000
Total	$26,590,000	$143,972,000	$131,235,000

the United Kingdom, and from the other belligerents, both allies and enemies. The imports from the United States decreased slightly at the outset, but are now larger than ever, amounting to five times the importations from the United Kingdom. Canada is still, as she was before the war, the third best customer of the United States, the only difference being that France has displaced Germany as the second largest. It is interesting to note that this past year Canada took more United States goods than all Asia and South America combined.[4]

ENORMOUS INCREASE IN CANADIAN EXPORTS

While imports, to the surprise of most observers, have thus maintained practically their old levels, exports have followed a still more surprising course. In spite of the fact that 350,000 men have been withdrawn from their ordinary occupations, the production of wealth has been maintained and exports tremendously increased, more than doubling in the past three years. Much of this increase, of course, is nominal, reflecting higher prices, and a large part of the manufacturing exports consist of munitions and other temporary war supplies, but the figures of exports of forest, field, and mine show the country's permanent possibilities.[5] The figures for the first few months of the fiscal year 1916–17 show still more rapid growth. Of last year's $741,000,000, the United Kingdom took $463,000,000 and the United States $320,000,000, as compared

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[4] UNITED STATES EXPORTS (FISCAL YEARS ENDING JUNE 30)

(In millions of dollars)

	1914	1916
United Kingdom	594	1,518
Germany	344.79	.2
Canada	344.71	466
France	159	630
Asia	113	278
South America	124	180

[5] EXPORTS OF CANADIAN PRODUCE (EXCLUDING COIN AND BULLION, AND REËXPORTS)

(Fiscal years ending March 31, in millions)

Year	Mine	Fisheries	Forest	Animal produce	Agricultural produce	Manufactures	Miscellaneous	Total
1913	57	16	43	44	150	43	..	355
1916	66	22	51	102	249	242	6	741

with $177,000,000 and $167,000,000 respectively three years previous. The United Kingdom bought from us nearly six times as much as it sold us: the United States bought about 75 per cent as much as it sold us. When it is considered that three years ago the United States bought only about 40 per cent as much as it sold, the surprising fact appears that just in the period when the investments of United States capital have been growing most rapidly, the excess of United States exports to Canada over imports has been decreasing. The explanation of this paradox is found in the changed relations of both countries with the third factor in the settling of our international balances, the United Kingdom.

Large Loans Floated at Home

The other source of Canadian capital has been the Dominion itself. Not only have the banks continued to finance the ordinary commercial needs of the country and in addition aided the establishment of large war supplies industries, but a considerable share of the municipal issues of the two years has been absorbed in Canada and two war loans of $100,000,000 each have now been taken up. The first Dominion loan was issued in November, 1915, and netted 5.48 per cent to the investor; the second, in September, 1916, nets him 5.30 per cent—a significant index of the maintenance of Canadian credit and of popular confidence. It has taken war exigencies to reveal to the people the efficiency and flexibility of their banks and other credit mechanism, and to stimulate saving. It cannot be said that there is as yet a great increase in thrift and economy; some improvement is observable, but on the whole the prosperity of the country has been too great and the proportion of direct taxes imposed too small to necessitate any startling change in our habits of living. Not that new taxes have not been imposed; federal, provincial and municipal authorities alike have prudently made provision for meeting a share of any increased war-time outlay out of current revenue. The Dominion has raised tariff and excise duties, imposed small stamp taxes, and levied a tax on war-time profits, and at the same time ordinary expenditures have somewhat lessened, with the result that there has been a substantial surplus to apply to war financing. In the present fiscal year, at the present rate of income and of outgo, after paying all ordinary and capital expenditures and meeting the interest on the previous

war loans, there will probably be a surplus of forty or fifty millions to apply to the principal of the war expenditure The amount of the federal revenue is thus very satisfactory, though there is room for criticism in the small, though increasing, proportion of it levied by direct taxation.

The success of the domestic loan issued in September, 1916, has given proof of the extent of the resourses which are now being tapped for the first time. The $100,000,000 offered was more than twice subscribed. The $50,000,000 subscribed by the chartered banks was not accepted, but was instead advanced to the British government as the basis for futher purchases of supplies in Canada.

FUTURE NEEDS

After the war, the United Kingdom will once more be prepared to finance colonial and foreign enterprises, though on a smaller scale. It is probable, however, that so far as Canada is concerned, the war-time tendency to rely more on United States and on home financing will continue. The Dominion is finding itself. The extent of its resources has long been known or guessed. In the past decade it acquired in great part the railway, factory, municipal plant required for their development. During the war it is attaining an efficiency in organization, a confidence in its own possibilities, and a variety and independence in capital resources not enjoyed before. The United States, meanwhile, has been growing immensely in wealth and in credit facilities. It seems certain that a large part of the surplus capital of the United States will continue to find investment on a large scale in the country which, in virgin opportunities, in soundness of financial and government conditions, in similarity of commercial methods, in the extent of trade relations, and in the opportunity for personal investigation which its geographical closeness offers, has the strongest appeal to the American investor.